

## Homeland Security Expands Push Toward Insourcing

BY STEPHEN LOSEY | FEBRUARY 7, 2011

The Homeland Security Department has finished a review of nearly 100 service contracts to see which should be insourced. It now plans to start reviewing every existing and future contract.

Jeff Neal, Homeland Security's chief human capital officer, would not say what contracts were, or how many — if any — jobs might be insourced as a result of the review because its findings are under review by the Office of Management and Budget.

But the contract review pilot project will pave the way for similar evaluations of all of the department's more than 10,000 service contracts. And in the future, Homeland Security wants to use the process to study new missions to see whether they should be outsourced, done in-house, or done with a mixture of contractors and federal employees.

Experts say other agencies could follow Homeland Security's example as they seek to follow the Obama administration's order to cut contracting costs.

"Everybody's doing it to some degree or another, but I don't know if anyone's done it as formally as DHS," said Stan Soloway, president of the Professional Services Council. "They're almost looking job-by-job."

The Bush administration relied heavily on contractors — especially when setting up Homeland Security eight years ago — but the Obama administration has sought to reduce what it called the government's overreliance on contractors. Former OMB Director Peter Orszag in 2009 ordered agencies to cut contract spending in part by insourcing inherently governmental work and restoring the right balance between federal and contract employees at programs that rely heavily on contractors.

But the government's insourcing efforts have largely faltered. In 2009, Homeland Security identified about 3,500 contractor positions that should be eliminated or converted to federal employee positions, but a year later Deputy Secretary Jane Holl Lute said in a memo that progress on insourcing those jobs was inadequate.

The Defense Department in 2009 announced plans to cut 33,000 contractor positions and replace many of them with civilian workers, and by last summer, had created about 16,000 new Defense civilian jobs through insourcing. But in August, Defense Secretary Robert Gates said the insourcing effort had not yielded the savings he expected. And critics of the Pentagon's effort, such as the Professional Services Council, said it had become a quota-driven exercise based on questionable cost assumptions.

Soloway said Homeland Security's balanced work-force effort is off to a better start than Defense, since Neal has not set quotas and doesn't appear to be biased toward or against outsourcing. And Soloway said Neal's willingness to only partially insource some positions shows Homeland Security is thinking strategically.

"I haven't heard anything that suggests they're doing a radical overhaul, but a strategic look," Soloway said. "They really are looking to see if they have the right balance, the right skills and in the right place."

Neal said in a recent interview that the balanced work-force issue has become "like a religious argument" in recent years. Advocates on either side aim to support their position, rather than finding what proportion of contractors and feds will let the government best accomplish its mission.

"We're not going to go out and set goals and say, 'We're going to insource thousands and thousands of jobs,'" Neal said. "We're going to look at what makes sense for the mission and have some documentation of how we got to that answer."

## **Data-driven process**

Neal nine months ago set up the Balanced Workforce Program Management Office as a pilot program to come up with a repeatable, data-driven process to review outsourced duties.

He said last year that insourcing efforts could focus on information technology, security and intelligence jobs. DHS headquarters, Customs and Border Protection and the Transportation Security Administration are some of the components that most heavily rely on contractors.

The department is looking at several factors, such as whether a particular mission is inherently governmental; whether the government, private sector or a mix of the two can do it better or cheaper; if DHS has managers that can oversee the insourced work and whether the government has or can recruit people with the experience and skills to do something in-house.

Neal said the office could even decide to cut some contractors without replacing them.

"In some cases, you look at it and say, 'Why are we doing this work to begin with?'" Neal said. "Maybe we should just stop doing it entirely."

Neal said the office chose a variety of large and small contracts from across Homeland Security for the pilot test. The office is ready to adjust the process if the pilot test doesn't yield accurate results. And the process could take years to work through all of the department's contracts.

"You have to work through budget cycles, you have to work with contracts and when contracts expire," Neal said. "We certainly don't have any intention to go out and terminate contracts midcycle. That costs too much money."

## **Army resets insourcing effort**

The Army last week made a major change to its own insourcing process that echoes Homeland Security's conclusion that insourcing requires a repeatable, verifiable process.

Army Secretary John McHugh suspended ongoing insourcing actions Feb. 1 and said senior Army leaders must review and approve all new insourcing proposals. Those proposals, McHugh said, must be fully documented and include at least a manpower requirements determination; analysis of all possible alternatives to hiring federal employees to do the job; a certification that the money is available to insource those duties; and a comprehensive legal review.

"In an era of significantly constrained resources, the Army must approach the insourcing of functions currently performed by contract in a well-reasoned, analytically based and systemic manner," McHugh wrote.

The Professional Services Council applauded McHugh's decision in a Feb. 3 statement.

"We have said all along that all sourcing decisions for clearly commercial work — whether insourcing or outsourcing — must be done strategically with the best interests of the government mission and American taxpayer in mind," Soloway said. "Policies requiring decisions [to] be fully documented and justified and based on 'an analysis of all potential alternatives' should be adopted across DoD and other federal agencies."